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SIPDIS

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NSC FOR SENIOR DIRECTOR FRAZER
STATE PASS USAID
STATE PASS EXIM/OPIC

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SUBJECT: AFTER MUGABE: POST RECOMMENDATIONS FOR A U.S.
RESPONSE

Classified By: Econchief William Weissman. Reason: 1.5 (b/d).

1. (c) Summary: While it is still uncertain whether President Robert Mugabe will depart in the next days or months, Post considers it prudent to offer policymakers "day after" recommendations at this stage. Assuming a transition government is committed to political and economic reform, the U.S. should immediately assist with elections, humanitarian needs and infrastructure loan guarantees. A transition government will not completely overcome the country's political divisions or recession, but it could lay the foundation for a viable democracy and market economy. To accomplish this, we suggest the U.S. establish the legal groundwork for waiving the Brooke-Alexander Amendment and 620(q) at the appropriate time. End Summary.

2. (c) Of course, it matters not just that Mugabe goes, but who comes. We do not recommend policy modification if Mugabe remains in power behind the scenes or if a transition government is headed by a "hard-liner" - at least until we discern which way the wind is blowing. It is possible that such a government would entrench itself and further restrict liberties. Even under a reformist government, we emphasize that there is no quick fix for Zimbabwe. It may take a decade of healthy growth before the economy returns to 1997 levels. Health and education systems might not reach mid-1990s levels for a generation, if ever.

Transition Headed by Bonafide Reformist

3. (c) If, on the other hand, a reform-minded transition government comes to power, the U.S. has a role in assuring that the transition to a freely-elected government occurs and that essential political and economic reforms are begun. In general, we could help steady Zimbabwe's first-ever political transition under very trying circumstances. We could begin to rebuild a strained bilateral relationship and selectively lift travel and financial sanctions. If appropriate, we could revise travel warnings that affect tourist inflows. Codel and high-level USG visits would also underscore our enthusiasm for a reforming Zimbabwe.

Democracy Assistance

4. (c) More specifically, we could help the transition government's most pressing task - carrying out free and fair elections, our top Mission Performance Plan goal. USAID should provide assistance and expertise to establish an Independent Electoral Commission. In order to promote an environment in which candidates and parties can wage open and non-violent election campaigns, the GOZ will need to repeal/amend an existing body of repressive legislation, including the Public Order and Security Act, the Access to Information and Protection of Privacy Act, the Elections Act and the Media and Broadcasting Act. As the new election approaches, USAID would fund the training and deployment of election observers, polling agents for political parties, transparent ballot boxes and computerized voter rolls. We would also continue Voice of America and independent media support. Using existing mechanisms such as National Democratic Institute, International Republican Institute and State University of New York/Albany, we estimate additional total cost at \$7 million. Some of these costs could be shared with other donors, although we think that USAID, NDI, IRI, and SUNY are in the best position to lead these activities.

Humanitarian/Economic Assistance

5. (c) To begin the process of economic recovery, we would strongly encourage a reformist transition government to modify/remove macroeconomic distortions by:

- adopting the Zimdollar's floating (parallel) rate for exporters
- raising interest rates (currently over 150 percent negative) above inflation
- eliminating universal fuel and electricity subsidies
- reducing public borrowing and spending
- curtailing price controls

- disbanding the government's grain monopoly

During the initial 6-12 month reform phase, we believe the Zimbabwean economy, currently shrinking by an annualized rate of 16 percent, will continue to recede. Zimbabweans will suffer as the country moves from an interventionist to market economy, triggering acute humanitarian needs. For that reason, we should supplement existing assistance efforts by immediately drawing upon \$250 million in PL 480 funds for additional urban and rural feeding programs, contingent on agricultural policy reforms. From Disaster Assistance Funds, we suggest \$6 million for water treatment/purification chemicals (covering approximately 6 months for Harare and Bulawayo), \$20 million for seeds and other agricultural inputs, and \$10 million for the national health system. Of the \$10 million, channeled through USAID and the Centers for Disease Control and Prevention, we would devote \$5 million to essential drugs, supplies and equipment, \$3 million to anti-retroviral therapy (ARV) sustaining between 3,000 and 5,000 persons and \$2 million to an integrated network of clinics for voluntary counseling and testing (VCT) and prevention of mother to child transmission (MTCT).

Financial Assistance

16. (c) A caveat: It is imperative the U.S. only provide financial support if the GOZ first moves aggressively to tear down the distortions cited above. It is not in the U.S. interest to broadly subsidize fuel or electricity consumption. For approximately a year, Libya's Tamoil infused over \$300 million into Zimbabwe through fuel donations, perpetuating macroeconomic distortions and stunting growth. The U.S. should not take over Libya's role, as Zimbabwean businesses and consumers need to come to terms with real-world tariffs. After the elimination of these subsidies, however, the U.S. could assist the GOZ to finance public transport and minimum-use electricity for low-income households. For this purpose, we propose an initial \$60 million for a half-year through the PL480 or 416(b) programs, generating local currency through monetized food programs.

17. (c) In a reform environment, we also recommend OPIC and ExIm Bank consider loan guarantees for projects that promote U.S. exports and shore up Zimbabwe's dilapidated infrastructure (in spite of existing arrears - see next paragraph). This could involve badly-needed rejuvenation of General Electric locomotives at the National Railway of Zimbabwe, Caterpillar machines at coal-miner Wankie Colliery and Boeing jets at Air Zimbabwe. Furthermore, the country's participation in African Growth and Opportunity (AGOA) sessions as an observer (with full admission following free and fair elections) would allow Zimbabwean firms to plan a reentry into the U.S. market. (Most U.S.-bound textile production here has migrated to AGOA countries.) We should also explore possibilities for including Zimbabwe in free trade negotiations with the Southern Africa Customs Union.

Funding Obstacles

18. (c) The main obstacle to much of this support is the Brooke-Alexander Amendment and 620(q), legislation prohibiting assistance to the GOZ because of its default on official U.S. loans. Overcoming Brooke-Alexander and 620(q) requires that the GOZ become current on outstanding debt to the U.S., or obtain a waiver. GOZ arrearages on two ExIm Bank loans total about \$17 million and on a USAID loan about \$127,000. Understandably, an incoming transition government would not make a priority of paying down the ExIm arrears. Thus, we recommend that the GOZ pay off the small USAID arrears and receive a waiver of the Brooke-Alexander and 620(q) restrictions for the ExIm loan. Additionally, we might wish to report to Congress on how changes in Zimbabwe impact upon Zimbabwe Democracy Act (ZDERA) implementation. Post suggests the U.S. undertake a comprehensive legal analysis of this option now and, for rapid response, have a strategy already in place as soon as Mugabe departs.

Comment

19. (c) We have outlined "day after" recommendations above. Following free and fair elections, the U.S. could do a great deal more. We assume only a democratically-elected government will be able to tackle Zimbabwe's most daunting issues, such as rationalizing land reform, privatizing inefficient parastatals and restarting International Monetary Fund and WorldBank support. At that point, the U.S. could reengage Zimbabwe across the spectrum - granting debt relief, redeploying the Peace Corps, offering AGOA membership, including the country in President Bush's HIV/AIDS initiative, restoring International Military Education and Training (IMET) and lifting all sanctions. There will be ample time to plan for this during the transition phase.

110. (c) While the above appears the most likely scenario, we would wish to be flexible in case the transition government

is able and willing to undertake more thorough and comprehensive reforms. (After all, it would likely be far easier to roll back land redistribution abuses with ZANU-PF collaboration than with ZANU-PF opposing such changes from the outside.) In the event of a seriously reformist transition government, we would also wish to encourage agreement with the International Monetary Fund/WorldBank and to consider use of the U.S. Treasury Exchange Stabilization Fund as a bridge to an IMF loan.

SULLIVAN